

ELUNDINI LOCAL MUNICIPALITY



2017/2018 DRAFT BUDGET

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PART 1 – DRAFT BUDGET

1.1 Executive Mayor's Report

The Municipality reaffirms its commitment to the achievement of the goals enshrined within Vision 2018, namely:

- Meeting basic service delivery needs of communities to improve their lives;
- Building a clean, efficient, responsive and accountable Municipality;
- Strengthening oversight over the Municipality's service delivery and financial performance;
- Changing the socio- economic landscape by investing in Infrastructure, human resource development and promoting enterprise development;
- Strengthening partnerships between the Municipality, communities and civil society.

COUNCILLOR N. LENGIS
MARCH 2017

1.2 **Budget Resolutions**

- (a) The Mayor recommends that the Council resolves that:
1. That in terms of section 16 of the Municipal Finance Management Act, 56 of 2003, the draft budget of the Elundini Municipality for the financial year 2017/2018, and indicative allocations for the two projected outer years 2018/2019 and 2019/2020, and the multi-year and single year capital appropriations be approved as set out in the following tables:
 - a. Budgeted Financial Performance(Revenue and Expenditure by Standard Classification);
 - b. Budgeted Financial Performance(Revenue and Expenditure by Municipal Vote);
 - c. Budgeted Financial Performance(Revenue by Source and Expenditure by Type); and
 - d. Multi-year and single year capital appropriations by municipal vote and standard classification and associated funding by source.
 2. That the financial position, cashflow, cash backed reserves/accumulated surplus, asset management and basic service delivery targets be adopted as set out in the following tables:
 - a. Budgeted Financial Position;
 - b. Budgeted Cash Flows;
 - c. Cash Backed Reserves and accumulated surplus reconciliation;
 - d. Asset Management; and
 - e. Basic Service Delivery Measurement
 3.
 - a. Budget Policy
 - b. Virement Policy
 - c. Tariff policy
 - d. Subsistence & travelling policy

1.3 Executive Summary

The Draft Budget comprises the approved Operating and Capital Budgets, which is a requirement of the Constitution and the Municipal Finance Management Act (MFMA). The capital budget generally contain new or replacement assets such as roads, vehicles, buildings, etc. The Operating Budget, which is by far the largest component of the Budget, includes the provision of services, such as electricity, water, refuse collection, etc.

The IDP's strategic focus areas informed the development of the draft budget, in addition to assessing the relative capacity to implement the Budget, taking affordability considerations into account. The aforementioned guidelines were considered appropriate to inform the development of the revised budget.

The Operating Budget Revenue totals R379,2 million and it must also be noted that our budget is out of balance, and included in the budgeted revenue there is an amount of R99,3 million for internal reserves which has been brought into the budget in order to balance it. The amount of R57.7 million is to counter fund the depreciation costs and debt impairment costs provided in terms of this budget. The difference of R41,6 million has also been brought into the budget to fund additional expenditure items in order to balance our 2017/2018 budget. It must also be noted that the amount of R41,6 million that we are referring to is not the physical cash that we have in the bank and if the projects can be implemented fully as per budgeted estimates the municipality may go bankrupt.

Annexure "A" provides a summary of the capital projects included in the Capital Budget.

Annexure "A"

R'000

MIG projects	R 37 607 650
Network upgrading equipment	R 1 862 000
Municipal buildings	R 2 798 320
Motor vehicles	R 2 180 000
Plant & machinery	R 2 000 000
Streets lights	R 655 106
Disaster recovery	R 300 000
Small Town regeneration	R 1 000 000
Access control	R 900 000
Vehicle testing station	R 4 000 000
EDMS	R 600 000
High mast	R 1 951 376
Other Capital Items	R 1 688 048
Total Capital Projects	R 57 542 500

Annexure “B” provides a summary of the operating projects included in the Operating Budget.

Annexure “B”

R'000

Community participation	R 2 377 334
Public participation	R 1 134 224
Tourism	R 800 000
Free basic services	R 6 289 427
Revenue protection	R 1 365 733
FMG	R 1 700 000
EPWP	R 2 569 000
SMME Development	R 1 000 000
Agruculture	R 500 000
Ward committes	R 1 627 920
Establishment of townships	R 691 500
Electrification (INEP)	R 30 000000
Total Operating Projects	R 50 055 138

1.3.2 Effect of the Draft Budget

In this section the draft Operating and Capital Budgets are discussed.

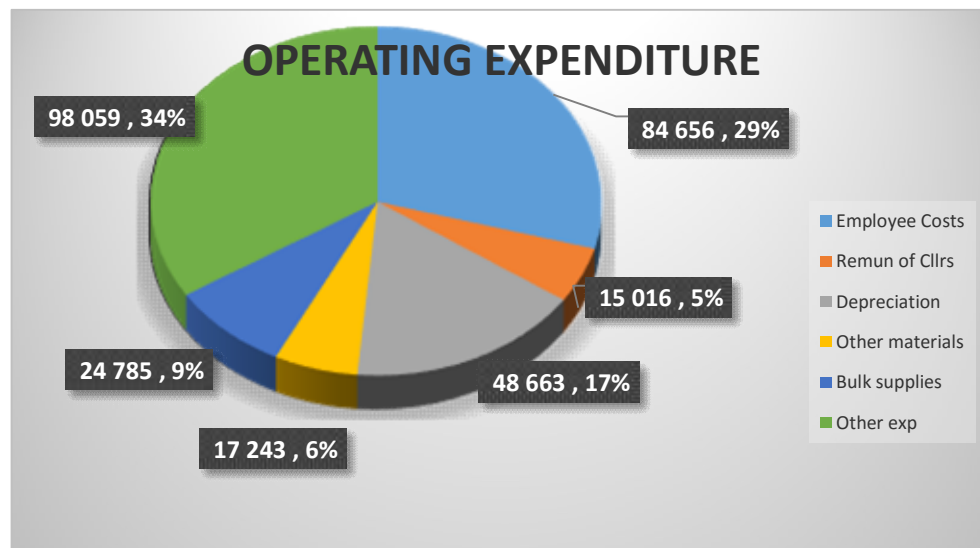
1.3.2.1 Operating Budget

The operating expenditure budget amounts to R 321,7 million.

The graph below reflects the expenditure components of the budgeted statement of financial performance.

2017/2018 Statement of Financial Performance- Budget Expenditure

R'000



Below is a discussion of the main expenditure components:

Employee Costs

The budget provision for employee costs amounts to R84,6 million and for the councillors remuneration it amounts to R15,0 million and it totals to R99,6 million.

Depreciation and Asset Impairment

The 2017/2018 budget provided for R48.7 Million towards the depreciation costs of the organization, this is in relation to the depreciation for previous year and this year's acquisitions in order to meet the requirement of directive 4 by including it to the budget.

Other Materials

The 2017/2018 budget provided for R 17,2 Million towards repairs and maintenance on all services.

Bulk purchases

The 2017/2018 original budget provided R24,8 million for electricity purchases as the municipality is providing the service closer to its communities.

Other Expenditure

In the 2017/2018 original budget the council has provided an amount of R98 million to cover other related expenditure to support the IDP's KPA's.

Sources of Funding

The Municipality receives its funding from many sources including property rates, services charges and government grants. The following table identifies the sources of funding for financial year 2017/18.

See table A4

Rates and Services Revenue

Rates income that has been provided amounts to R21,9 million, from this amount there will be a reduction of R3.1 million for rebates and we will be left with R18,8 million that we anticipate to collect, services income from solid waste and electricity we anticipate to collect R4,9 million and R24,6 respectively.

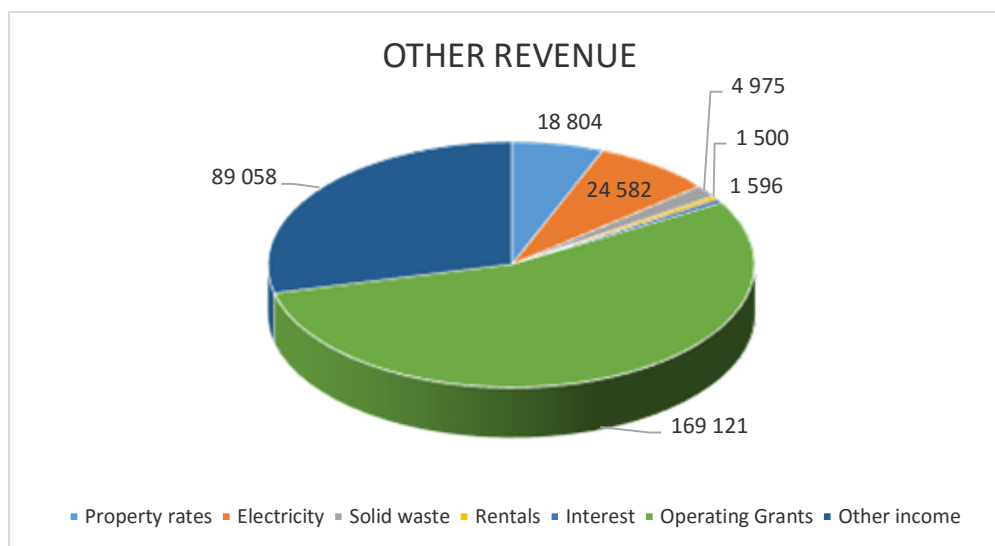
Other Revenue

The 2017/2018 budget provided for R92,1 million including non-cash funding for depreciation and debt impairment costs, the funding sources are primarily associated with internal reserve held to finance operational expenditure.

Below is a graph reflecting the revised revenue components of the budgeted statement of financial performance.

2017/2018 Statement of Financial Performance- Budget Revenue

R'000



1.3.2.2 Capital Budget

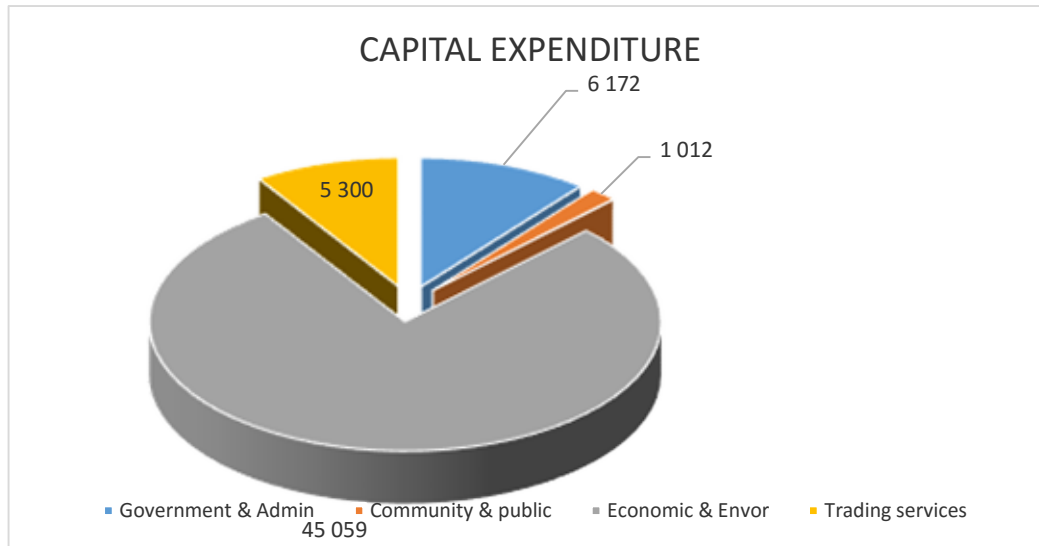
The 2017/18 budget has made provisions of R57,5 for Capital projects.

See Annexure A on page 6 in respect of Capital budget list.

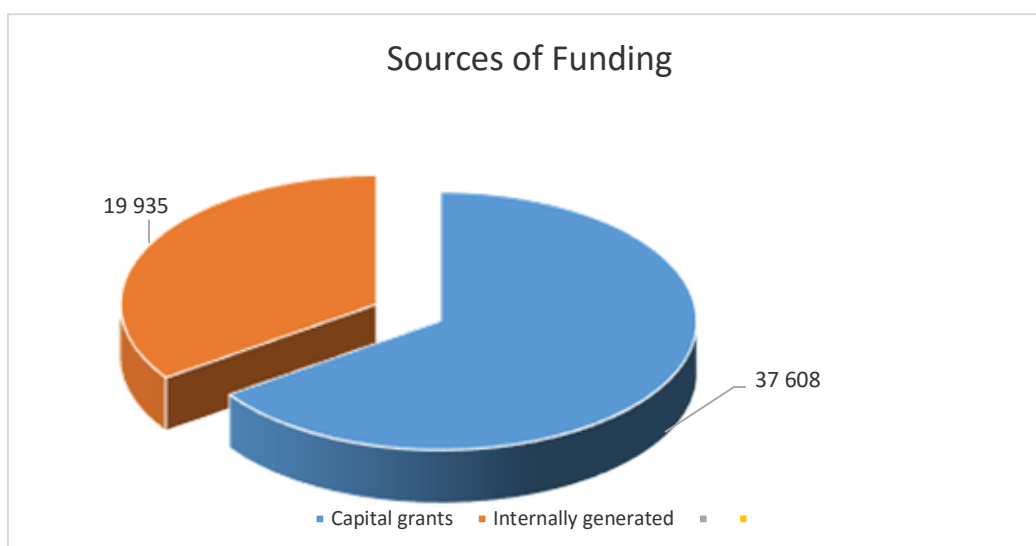
The 2017/18 adjusted budget will be funded as follows:

Funded by:		R'000
National Government		37,608
Provincial Government		-
District Municipality		-
Other transfers and grants		-
Transfers recognised – capital		-
Public contributions & donations		-
Borrowing		-
Internally generated funds		19,935
Total Capital Funding		57,543

The graphs below reflect the 2017/18 Capital Budget by Directorate and finance source.



2017/2018 Capital Sources of Financing



1.3.3 Basic Service Delivery

In accordance with the original budgeted Basic Service Delivery targets approved, as relates to the original budget.

1.3.4 Funding of the Budget

Fiscal Overview

1.3.4.1 2017/2018 Projected Financial Performance (REVISED)

The municipality's financial performance and position is sound, and is expected to continue based on the following:

- Budgets are balanced, being funded from the current financial year's revenues.
- The municipality operates within its annual budget, as approved by Council.
- The municipality maintains a positive cash and investments position.
- Planned revenue collection rates are being achieved.

1.3.4.1.1 Operating Budget

In accordance with the original estimates of revenue and expenditure, the organization planned for a surplus of R 57,2 million.

The current financial year's revenues are sufficient to cover the operating expenditures.

The Municipality has implemented a Revenue enhancement strategy, aimed at ensuring the systematic improvement of collections over the MTREF to 100% of billed revenue thereby ensuring sustainable growth and the achievement of the IDP objectives.

1.3.4.1.2 Capital Budget

The Capital budget framework has shown a decrease of R2,2 million when compared with 2016/2017 adjusted budget, the funding sources secured to fund the capital investment has been sourced from Government Grants amounting to R37,6 million, and R19.9 million being internal revenue sources.

1.3.4.2 Financial Ratios

The current and projected financial picture is reflected in the various ratios, monitored by the municipality on a monthly basis. Ratios such as levels of cash, loan debt, debtors to total revenue, etc. – are expected to improve slightly from their current levels over the mid-term outlook of this Budget.

On the whole the financial positioning of Council is stable as reflective within the Performance indicators and benchmarks.

Ongoing issues requiring monitoring and evaluation

The municipality is closely monitoring certain issues that could have a significant financial impact on future budgets. If one or more of them require substantial resources beyond what is included in the mid-term budget, the municipality will have to adjust its spending plans to maintain its financial position. Many of the items listed below could have major and permanent impacts on the operating budget, and would therefore require permanent Increase in revenue, or commensurate reductions in other services. Consequently, they should be carefully monitored and evaluated:

- Maintenance backlogs in respect of Council's assets – adequacy of budgetary provisions;
- Staffing requirements and the impact on the personnel expenditure target;
- Improvement of current collection rates;

- Reviewing and enhancing the level of the Capital Replacement Reserve, to ensure that the Municipality is able to cover the purchase of new and replacement assets;
- Financial implications associated with the outcomes of the Section 78 processes-Solid Waste.
- Electricity distribution losses

1.3.5 Medium Term Revenue and Expenditure

The Projected Financial Results over the MTEF are as follows:

See table A4

1.3.6 Priorities and linkages to the SDBIP

Adjustment to budgeted performance and indicators

1.4 Annual Budget Tables

The annual budget tables are included in this section.

1.4.1 Budget Summary

The aim of the Budget Summary is to ‘provide a concise overview of the adjusted budget from all of the major financial perspectives (operating expenditure, capital expenditure, financial position and cash flow, and MFMA funding compliance). The table provides a ‘snapshot view’ of the amounts to be approved by Council within the context of operating performance, resources utilized for capital expenditure, financial position, cash and funding compliance.

Taking the aforementioned budget strategy, assumptions and principles into consideration the revised 2017/18 Budget was arrived at as follows:

See attached table A1

1.4.2 Consolidated Financial Performance 2017/18-2019/1920

The ‘standard classification’ refers to a modified Government Finance Statistics (GFS) reporting structure. The aim of the standard classification approach is to ensure that all

municipalities approve a budget in one common format, to facilitate comparison across all municipalities.

See attached table A2

The purpose of the format in which the budget is presented below, is to enable the Council to enforce a vote in accordance with the municipality's organisational structure, so as to assign responsibility for the revenue and expenditure recorded against these votes to the Municipal Manager and Directors concerned.

Below is a classification of the adjusted operating revenue and expenditure by 'vote'. A 'vote' is defined as one of the main segments into which a budget of a municipality is divided into, for the appropriation of funds.

See attached table A3

The Financial Performance Budget is required to be approved concurrently by revenue source and expenditure type, so as to ensure consistency with annual reporting format requirements. A key aim is to facilitate comparison between the annual results and the original budget, so as to assess performance.

The following table reflects the adjusted budgeted financial performance by expenditure and income categories:

See attached table A4

1.4.3 Capital Budget Summary

Taking the aforementioned constraints into account the following capital budget was arrived at.

Table A5 Budgeted Capital Expenditure by vote, standard classification and funding

Table A5 seeks to meet three requirements, namely it shows:

- Adjusted capital expenditure by municipal vote;
- Adjusted capital expenditure by standard classification; and
- Adjusted funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial governments that fund the capital budget.

See attached table A5

1.4.4 Budgeted Financial Statements

The financial statements below identify the financial viability of the Municipality. It is evident from this statement that value of the Municipality is increasing and liquidity although appropriate at this point of time, will require monitoring.

1.4.4.1 Table A6 Budgeted Financial Position

The table presents Adjusted Assets less Liabilities as Community Wealth. The order of items within each group is also aligned to the convention of showing items in order of liquidity; i.e. assets readily converted to cash or liabilities immediately required to be met from cash appear first.

See attached table A6

1.4.4.2 Table A7 Budgeted Cash Flows

Table A7 includes, some specific features:

- Clear separation of receipts and payments within each cash flow category
- Clear separation of capital and operating receipts from Government, and
- Separation of borrowing and loan repayments (no set-off), to assist with MFMA compliance assessment regarding the use of long term borrowing (debt)

1.4.4.3 Table A8 Cash backed reserves/accumulated surplus reconciliation

The underlying purpose of the table is to reflect the predicted cash and investments that are available at the end of a particular budget year and how those funds were used. A surplus would indicate that sufficient cash and investments was available to meet commitments, whilst a shortfall would indicate inadequate cash and investments was available to meet commitments.

See attached table A8

1.4.5 Table A9 Asset Management

This table provides a summarized version of the adjusted capital programme divided into new assets and renewal of existing assets and also reflects the relevant asset categories. The associated repairs and maintenance and depreciation is also reflected.

It also provides an indication of the resources deployed for maintaining and renewing existing assets, as well as the extent of asset expansion.

See attached table A9

1.4.6 Table A10 Basic service delivery measurement

This table provides basic service delivery information that the municipality approves basic service delivery targets aligned to national priorities.

See attached table A10

2.2 Overview of Budget Funding

2.2.1 Funding the Budget

2.2.1.1 Funding of operating expenditure

The Municipality's operating expenditure is mainly funded from sources such as property rates, service charges and government grants. The table below reflects the funding sources:

See table A4

2.2.1.2 Funding of capital expenditure

The Municipality's capital expenditure is mainly funded from sources such as Internally generated funds, public donations and government grants. The table below reflects the funding sources:

See table A5

2.2.3 Particulars of Monetary Investments held

Monetary investments underpinning the original budget have increased to R80.5 Million from the original estimates held.

EC141 Elundini - Supporting Table Investment particulars by maturity

Investments by Maturity	Ref	Period of Investment	Type of Investment	Expiry date of investment	Monetary value	
Name of institution & investment ID	1	Yrs/Months			Rand thousand	
Parent municipality						
First National Bank		3 Months	Call Accounts		6 738	
Standard Bank		3 months	Call Accounts		73 790	
Municipality sub-total					80.528	
TOTAL INVESTMENTS AND INTEREST	1				80.528	

2017/2018 budget tables supporting the main tables are detailed below

Supporting detail to 'Budgeted Financial Performance'

SA1

Consolidated Matrix Financial Performance Budget (revenue source/expenditure type & dept.)

SA2

Supporting detail to 'Budgeted Financial Position'

SA3

Supporting Table SA4 Reconciliation of IDP strategic objectives and budget (revenue)SA4**Supporting Table SA5 Reconciliation of IDP strategic objectives and budget (operating expenditure)**

SA5

Supporting Table SA6 Reconciliation of IDP strategic objectives and budget (capital expenditure)

SA6

Measurable performance objectives

See attached table SA7

Performance indicators and benchmarks

See attached SA8

Social, economic and demographic statistics and assumptions

See attached SA9

Property Rates Summary

See attached SA 11

Property Rates by Category (Current year)

See table SA12a

Property Rates by Category (Budget year)

See table SA12b

Service Tariffs by category

See attached SA 13a

Service Tariffs by category explanatory

See table SA13b

Household Bills

See attached
SA14

Cash flows per source document.

Investments held by the municipality in financial institutions are listed in this table,
See attached SA15 and SA16

Transfers and grants received

All allocations that are to be transferred to the municipality are detailed in this table

See SA18

Expenditure on transfers and grant programme

Total expenditure to be incurred in terms on grants is detailed in this table

SA19

Reconciliation of transfers, grant receipt and unspent funds

SA20

Transfers and grants made by the municipality.

The municipality has provided an amount R6,2 million to groups of individuals that will benefit the indigent people of Elundini.

SA21

Summary of Councilors and Staff benefits

The expenditure to be incurred by Councilors, senior managers and staff is detailed in this table.

SA22

Salaries, allowances & benefits (political office bearers/councillors/senior managers)

The expenditure to be incurred by Councilors and senior managers is detailed in this table.

SA23

Summary of personnel numbers

Personnel numbers in terms of Councilors, senior managers and staff is detailed in this table.

SA24

Consolidated budgeted monthly revenue and expenditure

Monthly budgeted revenue and expenditure is detailed in this table.

SA25

Consolidated budgeted monthly revenue and expenditure (municipal vote)

Monthly budgeted revenue and expenditure by municipal vote is detailed in this table.

SA26

Consolidated budgeted monthly revenue and expenditure (functional classification)

Monthly revenue and expenditure by functional classification is detailed in this table.

SA27

Consolidated budgeted monthly capital expenditure (municipal vote)

Monthly capital expenditure by municipal vote is detailed in this table.

SA28

Consolidated budgeted monthly capital expenditure (functional classification)

Monthly capital expenditure by functional classification is detailed in this table.

SA29

Consolidated budgeted monthly cash flow

Realistic monthly cash flow budget is detailed in this table.

SA30

Consolidated capital expenditure on new assets by asset class

Capital expenditure on new assets by asset class is detailed in this table.
SA34a

Consolidated repairs and maintenance by asset class

Repairs and maintenance by asset class provided by the municipality in terms of this budget is detailed in this table,
SA34c

Consolidated Depreciation by asset class

Depreciation by asset class provided by the municipality in terms of this budget is detailed in this table.
SA34d

Consolidated future financial implications of the capital budget

Future financial implications of the capital budget are detailed in this table
SA35

Consolidated detailed capital budget

Detailed capital budget is detailed in this table
SA36

Consolidated projects delayed from previous financial years

Projects delayed from previous financial years are listed in this table
SA37

Consolidated detailed operational projects

Detailed operational projects are detailed in this table.
SA38

2.8 Municipal Manager's Quality Certification

Quality Certificate

I, Khaya Gashi, Municipal Manager of Elundini Local Municipality, hereby certify that the adjustments budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the adjustments budget and

supporting documents are consistent with the Integrated Development Plan of the Municipality

Print Name _____

Municipal Manager of Elundini Local Municipality Municipality (EC41)

Signature _____

Date _____